Management's Discussion and Analysis:

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Dollar amounts in thousands (except as noted)

Basis of Presentation

The following management's discussion and analysis ("MD&A") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010. The consolidated financial statements for the years ended December 31, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These documents, along with the Company's 2011 Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at August 8, 2012.

Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in the Company's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although management of Killam believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors which affect this information, except as required by law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate, and should not be used, for any other purpose.

Non-IFRS Measures

There are measures included in this MD&A that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- Net operating income (NOI) is calculated by the Company as income from property operations. The use of NOI when referring to a particular segment is calculated as revenue less costs for that segment.
- Funds from operations (FFO) are calculated by the Company as net income plus deferred tax expense and loss on disposition, less fair value gains and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition.
- Adjusted funds from operations (AFFO) is calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" related capital costs and $100 per Manufactured Home Community (MHC) site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2012 and 2011 (86% of the portfolio based on unit count).
- Capitalization Rate (Cap-Rate) is the rate calculated by dividing the forecasted net operating income from a property by the property's purchase price.

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Killam's Key Performance Indicators (KPIs)

Management measures Killam's performance based on the following key performance indicators (KPI):

1) *FFO per share* – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.
2) *Rental Increases* – Management expects to achieve increases in average rental rates on an annual basis and measures the average rental increases achieved.
3) *Occupancy* – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure considers units rented as a percentage of total stabilized units at any period of time.
4) *Same Store NOI Growth* – This measure considers the Company's ability to increase the NOI of properties that it has owned for equivalent periods year-over-year, taking out the impact of acquisitions and developments.
5) *Weighted Average Cost of Debt* – Killam monitors the average cost of its mortgage debt, and its total debt.
6) *Debt to Total Assets* – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt remains at a conservative level.
7) *Term-to-Maturity* – Management monitors the average number of years to maturity on its debt.
8) *Interest Coverage Ratio* – A measure of credit risk used by lenders, this measure considers Killam's ability to pay interest on outstanding debt. Generally, the higher the interest coverage, the lower the credit risk.
9) *Debt Service Coverage Ratio* – A measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt and does not include any changes in fair value associated with Killam's investment properties. Generally, the higher the debt service coverage, the lower the credit risk.

Overview of Killam Properties

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and manufactured home communities (MHCs). Killam's 146 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario. The Company's 44 MHCs are located across Canada. The value of Killam's real estate assets at June 30, 2012 was $1.3 billion (including investment properties under construction). Killam is focused on growing its portfolio, maximizing the value of its properties and increasing FFO per share.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003. From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, including Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 16% average market share of the multi-family rental units in these core markets. During 2010, Killam entered the Ontario apartment market with the purchase of two buildings in Cambridge, and one building in London. A fourth Ontario property was acquired in London in 2011, and two additional properties were acquired in Ottawa and Mississauga in 2012. Killam plans to expand its presence in Ontario with additional acquisitions. The apartment business is Killam's largest business segment, accounting for 80% of the Company's NOI from property operations in the second quarter of 2012. At June 30, 2012, Killam's apartment portfolio included 11,394 units located in Atlantic Canada and Ontario. The portfolio includes three properties in Ontario, which Killam has a 25% interest through unconsolidated joint ventures (this represents 472 apartment units).

During 2010 Killam began to complement its acquisition program with the construction of new apartment buildings. The Company's first development project, a 47-unit building in Charlottetown, was completed in 2011. Four other development projects, totaling 282 units, are currently underway and expected to be completed in 2013. The aggregate cost of the development projects is $61.9 million, accounting for approximately 4% of Killam's asset base.

The Company's multi-family rental portfolio is distinguishable from the majority of other residential rental companies through its ownership in MHCs, also known as land lease communities and trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants, who own their own homes and pay Killam a monthly site rent. With 44 communities, Killam owns the largest portfolio of MHCs of any publicly traded company and is the second largest owner of MHCs in Canada. The portfolio includes MHCs in Ontario and Atlantic

Dollar amounts in thousands (except as noted)

Canada. In the second quarter of 2012, the MHC business accounted for 19% of Killam's NOI from property operations.

Overview of Financial and Operating Results

The following table presents a summary of Killam's financial and operating performance for the three and six months ended June 30, 2012 compared to 2011.

	Three months ended June 30			Six months ended June 30		
Results of Operations	**2012**	2011	Change	**2012**	2011	Change
Property revenue	**$33,679**	$30,735	9.6%	**$66,388**	$60,434	9.9%
NOI	**$20,518**	$18,687	9.8%	**$39,445**	$35,750	10.3%
Income before fair value gains, loss on disposition and income tax	**$9,414**	$8,133	15.8%	**$17,119**	$14,881	15.0%
Net income applicable to common shareholders	**$18,558**	$18,043	2.9%	**$28,640**	$33,610	(14.8%)
Earnings per share - basic	**$0.37**	$0.40	(7.5)%	**$0.58**	$0.75	(22.7%)
FFO	**$9,179**	$7,896	16.2%	**$16,641**	$14,430	15.3%
FFO per share - basic	**$0.185**	$0.175	5.7%	**$0.336**	$0.320	5.0%
Shares outstanding (June 30)	**49,825,850**	45,137,972	10.4%	**49,825,850**	45,137,972	10.4%
Weighted average shares outstanding (basic)	**49,623,022**	45,096,612	10.0%	**49,493,603**	45,045,979	9.9%
Weighted average shares outstanding (diluted)	**57,579,438**	50,851,953	13.2%	**57,449,135**	50,257,315	14.3%
Same Store Results	**2012**	2011	Change	**2012**	2011	Change
Same store revenue	**$28,081**	$27,619	1.7%	**$55,391**	$54,457	1.7%
Same store expenses	**$11,098**	$11,080	0.2%	**$22,973**	$22,784	0.8%
Same store NOI	**$16,983**	$16,539	2.7%	**$32,418**	$31,673	2.4%

Balance Sheet	**June 30, 2012**	December 31, 2011	Change
Investment properties	**$1,237,298**	$1,246,645	(0.7)%
Investment properties under construction	**$28,357**	$11,574	145.0%
Total assets	**$1,338,930**	$1,329,531	0.7%
Total liabilities	**$806,483**	$816,988	(1.3)%
Total equity	**$532,447**	$512,543	3.9%

Ratios	**June 30, 2012**	December 31, 2011	Change
Total gross debt to total assets	**54.0%**	56.2%	(3.9%)
Weighted average mortgage interest rate	**4.51%**	4.63%	↓12bps
Weighted average years to maturity	**3.5**	3.8	(7.9)%
Interest coverage *(rolling 12 months)*	**1.98x**	1.98x	—%
Debt service coverage *(rolling 12 months)*	**1.31x**	1.32x	(0.8)%

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Dollar amounts in thousands (except as noted)

Summary of Q2-2012 Results

FFO Growth

Killam earned FFO of $9.2 million, or $0.185 per share, during the second quarter of 2012 compared to $7.9 million or $0.175 per share during Q2 2011. The 5.7% growth in FFO per share was primarily attributable to same store property growth and positive NOI contribution from acquisitions during 2011 and the first half of 2012.

Strong NOI growth from MHCs

MHCs posted an 8.8% increase in same store NOI in the second quarter of 2012. Revenues increased by 4.7%, and expenses decreased by 1.7%.

Apartment Same Store NOI Increased 1.4%

Killam's same store apartment portfolio posted a 1.4% increase in NOI in the second quarter of 2012. The average rent per unit increased 3.5% quarter-over-quarter, offset somewhat by a decrease in occupancy, resulting in a net revenue gain of 1.1%. Total property expenses grew by 0.5% as decreases in utility, fuel costs and repair and maintenance costs helped to offset increased operating expenses and property taxes.

Two Ontario Acquisitions Completed

Killam completed two acquisitions in the second quarter of 2012 through its partnership with Kuwait Finance House ("KFH"), a partnership established in 2010. These acquisitions represent a $19 million investment for Killam based on a 25% interest. The acquisitions included the new 146-unit Kanata Lakes Apartments, located in Ottawa, Ontario and a 199-unit apartment located at 1355 Silver Spear Road in Mississauga, Ontario.

Disposition of 12 Manufactured Home Communities

Killam sold twelve non-core manufactured home communities, including 2,032 sites, during the second quarter of 2012. This sale represents Killam's first asset divestiture. The properties were sold for a total price of $72.3 million. The Company's five communities in Western Canada were part of the transaction, plus seven communities in Ontario. The net proceeds, after the assumption of existing mortgages, were $33.9 million.

Capitalizing on a Low Interest Rate Environment

Killam continues to manage the low interest rate environment in 2012 and renewed maturing mortgages at lower interest rates. During the second quarter of 2012, Killam successfully refinanced $3.8 million in maturing mortgages at a weighted average interest rate of 3.90%, 132 basis points lower than the weighted average rate of 5.22% on the debt prior to refinancing. Killam took advantage of lower long-term rates with a 10-year term for one of the refinancings ($2.6 million at 3.36%).

Real Estate Valuations Rising

Killam recorded $14.9 million in fair value gains in the second quarter of 2012, as compressing Cap-Rates increased the fair value of the Company's apartment portfolio. The low interest rate environment and the stability of the real estate sector in Canada had resulted in higher valuations for real estate assets. The gain in real estate valuations does not impact the Company's FFO per share, its key measure of performance.

Dilution from 2011 Capital Raises

Increased interest costs associated with the Company's convertible debentures following the $46 million convertible debenture offering completed in May 2011 and a 19% increase in shares outstanding following the November 2011 equity raise had a negative impact on funds from operations per share in the quarter.

Dollar amounts in thousands (except as noted)

Atlantic Canada's Dominant Apartment Landlord

The following table summarizes Killam's apartment investment by market as at June 30, 2012:

APARTMENT PROPERTIES

	Units(1)	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS(2)	4,821	50	11.9%	48.6%
Moncton, NB	1,426	28	14.2%	9.9%
Fredericton, NB	1,293	19	18.8%	11.0%
Saint John, NB	1,143	13	13.4%	7.2%
St. John's, NL	742	10	21.4%	6.4%
Charlottetown, PE	687	13	16.0%	6.9%
Ontario(3)	834	6	N/A	6.8%
Other	448	7	N/A	3.2%
Total	11,394	146		

(1) Unit count includes co-ownership interest in the Killam's partnerships and joint ventures.

(2) Killam owns a 47% interest and manages Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 47% ownership interest represents 116 of the 246 units related to this property.

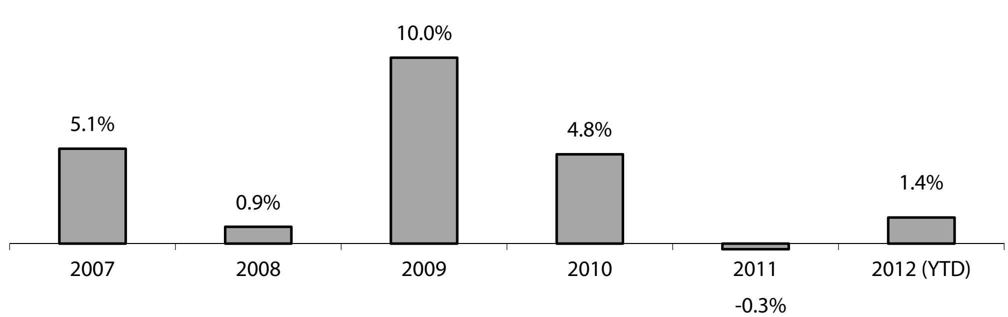
(3) Killam owns three buildings located in Ontario through a joint venture, with Killam having a 25% ownership interest and managing the properties. Killam's 25% ownership interest represents 118 of the 472 units related to these properties.

Increasing the Value of the Apartment Portfolio through NOI Growth

Management is focused on improving the performance of the current portfolio through annual increases in rents, maintaining high occupancy, and controlling expenses. Improving the profitability of the portfolio will generate higher FFO per share and support a higher net asset valuation for the portfolio, given a stable Cap-Rate environment.

A key measure of Killam's success is the ability to realize improved profitability from same store NOI growth. Same store NOI growth for apartments over the last five years is shown below.

Apartment Same Store NOI Growth



The Company has a history of successfully generating NOI growth based on a combination of increased revenue and cost management. The NOI growth in 2011 was impacted by a higher than normal increase in expenses, up 6.5% in 2011, including a 9.2% rise in heating and utility costs.

Limited Exposure to Rent Control

Killam is generally able to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control, representing only 6.2% of Killam's apartment units. In Killam's other rental markets in Atlantic Canada, rents can be adjusted to market on an annual basis. Although Ontario has rent control, the legislation excludes properties built after 1991. Killam's properties in Ontario are all newer properties (built in 2004-2012), except for the new acquisition in Mississauga, and therefore do not fall under the rent control guideline. The Company analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers. The ability to increase revenue is important in generating NOI growth. Over the last three years, Killam has increased rents by an average of 3.3%, 2.2% and 2.8% in 2009, 2010 and 2011, respectively. Occupancy plays a key role in determining Killam's ability to raise rents.

Managing Costs

Managing costs is another key component in generating NOI growth. Management is able to control approximately 40% of operating expenses, including labour costs and repairs and maintenance. The remaining operating costs, including utilities and property taxes, are less controllable. Energy costs represented approximately 31% of Killam's apartment operating costs in 2011. As at June 30, 2012, Killam's apartments were heated with a combination of natural gas (45%), electricity (37%), oil (17%) and other sources including geothermal heating and steam (1%). Heating costs for electrically heated units are generally paid by the tenant directly. Volatile oil and natural gas prices have an impact on Killam's ability to control these expenses. To mitigate this volatility the Company is active in energy conservation initiatives, natural gas conversions in Halifax and monitoring its energy usage. Killam has, at times, used hedging strategies to decrease price uncertainty.

Portfolio Growth through Development

Demand for newly constructed rental apartments is strong in Atlantic Canada, with high occupancy rates and above average market rents. CMHC's Fall 2011 Halifax Rental Market Report reported 99.2% occupancy for properties built in 2000 or later, compared to 97.6% for all rental markets in the city. The average rent for a two-bedroom unit in these newer buildings was $1,289 per month, compared to an average two-bedroom rent of $925.

Killam's apartment portfolio includes buildings of newer construction, (approximately 19% of Killam's apartment units were built in 2000 or later), which have performed well with high occupancy and lower than average capital requirements.

Management believes that developing new rental properties enables Killam to increase its ratio of newer product at better pricing than when it relies solely on the acquisition of new product. Direct involvement in the development also gives Killam involvement in the decision making and planning, allowing control over the quality and features of the buildings.

Killam completed its first development in 2011. The Company currently has four additional development projects underway, with a total estimated cost of $61.9 million, representing approximately 4% of its total assets. Please see page 32 of the MD&A for further discussion of current development projects

Manufactured Home Communities Offer Diversification and Stability

In addition to acquiring apartments, Killam also acquires MHCs and today Killam owns the largest portfolio of MHCs of any publicly-traded company and is the second largest owner of MHCs in Canada. Killam acquired its first community in 2003, and as at June 30, 2012, owned 44 communities across four provinces, with a total of 7,397 sites.

Dollar amounts in thousands (except as noted)

The following table summarizes Killam's MHC investment by province:

MHC PROPERTIES

	Sites	Number of Communities	% of MHC NOI(1)
Nova Scotia	2,555	15	27.3%
New Brunswick	2,507	11	25.5%
Ontario	2,165	16	35.0%
Newfoundland	170	2	1.6%
Total	7,397	44	

(1) The twelve MHC properties that were sold during the period represent 10.6% of MHC NOI for the six months ended June 30, 2012.

How the MHC Business Works

With MHCs, Killam owns the land and infrastructure supporting each community and leases the lots to the tenants, who, in turn, own their own homes and pay Killam a monthly lot rent. In addition to lot rent, the tenant may have a mortgage payment to a financial institution for their home. The average rent in Killam's MHC portfolio is $221/month, which offers value and affordability to the tenants. The home owner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 65.3% over the last two years, compared to 59.7% for apartments.

The most significant costs to operate MHCs are water, land property tax and general repairs and maintenance to the water and sewer infrastructure. Killam's experience with MHCs has shown that the largest variable expenses are costs related to the water and sewer infrastructure. The majority of other costs have little variability.

MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 98%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of the sale process.

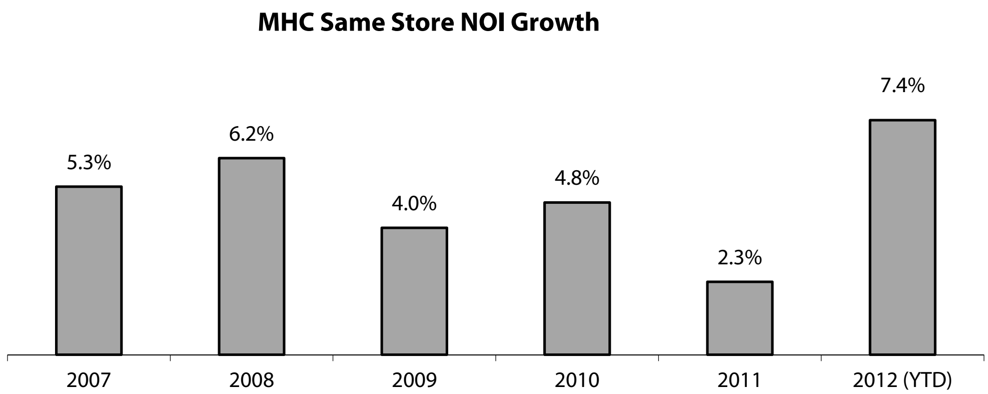
Consolidation of MHCs

Management identified an opportunity to consolidate the MHC market at the time that Killam was founded, recognizing that it was an overlooked asset class in Canada. Traditionally these assets had been held by individuals with very little consolidation activity in the market, resulting in higher Cap-Rates and the ability to generate attractive returns. Cap-Rates range widely for this asset class, impacted by location and quality, but have typically traded between 6% and 9% over the past few years. There has been limited individual community acquisition activity in the MHC sector during the last two years. Killam acquired its first MHC in three years in December 2011.

Increasing the Value of the MHC Portfolio through NOI Growth

As with apartments, Management is focused on improving the performance of the current MHC portfolio through annual rental increases, expansion opportunities, and managing expenses. Improving the profitability of the portfolio should lead to higher valuations for the properties in a stable Cap-Rate environment.

Management measures success in improving profitability through same store NOI growth. MHCs have little exposure to energy costs, resulting in relatively stable operating costs, even in an environment of volatile oil prices. Same store NOI growth for MHCs over the last five years is shown below:



MHCs fall under the same provincial tenancy regulations as apartments. Ontario is the only province where Killam owns MHCs that currently have rent control. The allowable rent increase for renewing MHC tenants in Ontario in 2012 is 3.1%. Higher rent increases are allowed for new tenants entering the communities. In addition, MHC owners also have the ability to apply for above-guideline increases to offset significant capital expenditures.

During 2010, the government of Nova Scotia passed legislation that is expected to lead to a regulation on rental increases for MHCs starting in 2013. The formula to determine the annual increase has not yet been finalized, but is expected to incorporate the average increase in CPI for Nova Scotia for the previous two years and include provisions for above guideline increases for actual operating and capital improvements.

The year-to-date MHC same store NOI growth is a result of a 3.8% increase in operating revenues as well as 1.8% decrease in operating expenditures.

Expansion Opportunities for MHCs

Killam began MHC expansions in 2007 and since then has developed an additional 241 sites in eight communities and has sold 165 homes onto those expansions. Future expansion potential has been identified at 9 of the Company's MHCs, with the potential for up to 580 new sites. Killam expects to develop new sites as demand for new homes in the communities supports expansion costs. The average per-site cost to expand varies based on the existing infrastructure in each specific community. The expansion costs to-date have averaged $29,000 per site. The income generated from a new home sale offsets a portion of the expansion cost, allowing expansion sites to be added at a net cost less than Killam's typical acquisition costs.

Disposition of Non-Core MHCs

During the second quarter of 2012, Killam disposed of 2,032 sites in twelve non-core MHCs. The properties were sold for a total price of $72.3 million. The Company's five communities in Western Canada were part of the transaction, plus seven communities in Ontario: Bayview Estates, Fergushill Estates, Golden Horseshoe Estates, Green Haven Estates, Parkside Estates, Silver Creek Estates and Sunny Creek Estates. The net proceeds on the disposition were $33.9 million, after all final adjustments and $37.8 million in existing mortgages were assumed by the purchaser. This sale represents Killam's first asset divestiture. While the Company continues to value the MHC business and its stable contribution to funds from operations, this sale crystallizes the appreciation in value on a portion of the MHC portfolio.

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Dollar amounts in thousands (except as noted)

Performance Compared to 2012 Key Objectives and Targets

Consolidation of the Multi-family Residential Real Estate Market	
2012 Target	Complete approximately $100 million in acquisitions.
2012 Performance	On target - Killam's acquisitions totaled $53.7 million year-to-date ($34.1 million in the first quarter of 2012 and $19.6 million in the second quarter of 2012). The acquisitions completed in Q2 are accounted for as equity investments.
Increase Investment in New Properties	
2012 Target	Acquire new properties as part of the acquisition program in 2012. Continue with Killam's four developments, on schedule and on budget.
2012 Performance	Chapter House, acquired in February 2012, was built in 2004. The Kanata Lakes Apartments acquired in May 2012, was completed in March 2012. Killam's four developments are progressing on time and are expected to be completed in early 2013. The total cost of development has increased slightly by $1.9M, or 3.2%, during the quarter as a result of higher than expected fixed-priced contracts for some trades and suite enhancements.
Geographic Diversification	
2012 Target	2012 acquisition program to include investments in Ontario.
2012 Performance	There were two acquisitions completed in Ontario during the second quarter of 2012. The buildings are located in Ottawa and Mississauga, Ontario. Management continues to actively look for acquisition opportunities in Ottawa, the Greater Toronto Area and the London and Cambridge areas.
Growth in Same Store Net Operating Income	
2012 Target	Same store NOI growth of 2% to 4%.
2012 Performance	On target - Consolidated same store NOI increased by 2.4% for the six months ended June 30, 2012.
Maximize the Value of Excess Land	
2012 Target	Complete 30 to 40 home sales and gain approval for additional developments on excess land.
2012 Performance	Completed 13 home sales and placements year-to-date (4 home sales and placements in the first quarter and 9 in the second quarter of 2012). Killam closed or has commitments to close 5 homes to-date in the third quarter of 2012. Following the sale of 12 MHCs during the second quarter, Killam has adjusted its home sale target for 2012 to between 22 and 27.

Capability to Deliver Results

Canadian Real Estate Market

Killam's ability to grow its portfolio will depend on the ability to source properties at accretive prices. Demand for ownership of apartment properties in Canada is strong with many purchasers competing for assets. Killam has built its portfolio slowly, primarily through the acquisition of unbrokered sales, thereby avoiding a competitive bid process. Cap-Rate compression is on-going, making it difficult to source quality assets that provide accretive returns, especially when factoring in costs associated with deferred maintenance.

Dollar amounts in thousands (except as noted)

Access to Capital

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt and to raise equity in the capital markets. Cash flow from operating activities is expected to meet Killam's ongoing operating requirements; however, Killam's growth plans require a supply of new capital. Capital sources are defined as mortgage debt, vendor mortgages, debenture debt and share capital equity. As at June 30, 2012, Killam had $26.7 million in cash on hand and two unencumbered properties which are expected to have debt totaling $7.0 million added in 2012, for total capital available for acquisitions and development of $33.7 million. Based on an assumed $7 million cash required for the development projects underway and an assumed 60% mortgage debt on acquisitions, this capital is expected to support acquisitions and/or further developments of approximately $67 million.

Access to mortgage debt is essential in financing future acquisitions, and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered the maturity dates of its mortgages to manage interest rate risk. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt.

Increases in Utility and Property Tax Costs

Utility costs and property taxes represent approximately 60% of total operating costs. Killam can partially impact the consumption of energy, but not the pricing. Property taxes are controlled by the municipalities in which the Company operates. Significant changes in energy prices and property taxes could impact Killam's ability to meet its same store NOI growth targets.

Q2-2012 Financial Overview

Property Revenue

For the 3 months ended June 30,	**2012**	2011	% Change
Same store properties	**$28,081**	$27,619	1.7%
Other properties	**5,598**	3,116	79.7%
	$33,679	$30,735	9.6%

For the 6 months ended June 30,	**2012**	2011	% Change
Same store properties	**$55,391**	$54,457	1.7%
Other properties	**10,997**	5,977	84.0%
	$66,388	$60,434	9.9%

Same store assets reflect the 167 stabilized properties that Killam has owned for equivalent periods in 2012 and 2011. The same store analysis includes 16,201 units, or 86% of Killam's portfolio. Home sales are excluded from the analysis. Other properties represent properties not included in same store results, including properties acquired in 2012 and 2011, developments, MHC properties which were sold during Q2 2012 and other non-stabilized properties. Details of properties acquired in 2012 are found on page 29.

The annualized operating revenue for the properties the Company owned as at June 30, 2012, is approximately $129.0 million, based on current rents less a 3% vacancy allowance. Killam, like all real estate rental operators, is sensitive to vacancy rates, however, Killam believes its portfolio is quite defensive given its diversification in terms of multiple locations and two distinct asset types. Based on current rents, an annualized 1% change in vacancy rates would impact the annualized rental revenue by $1.3 million.

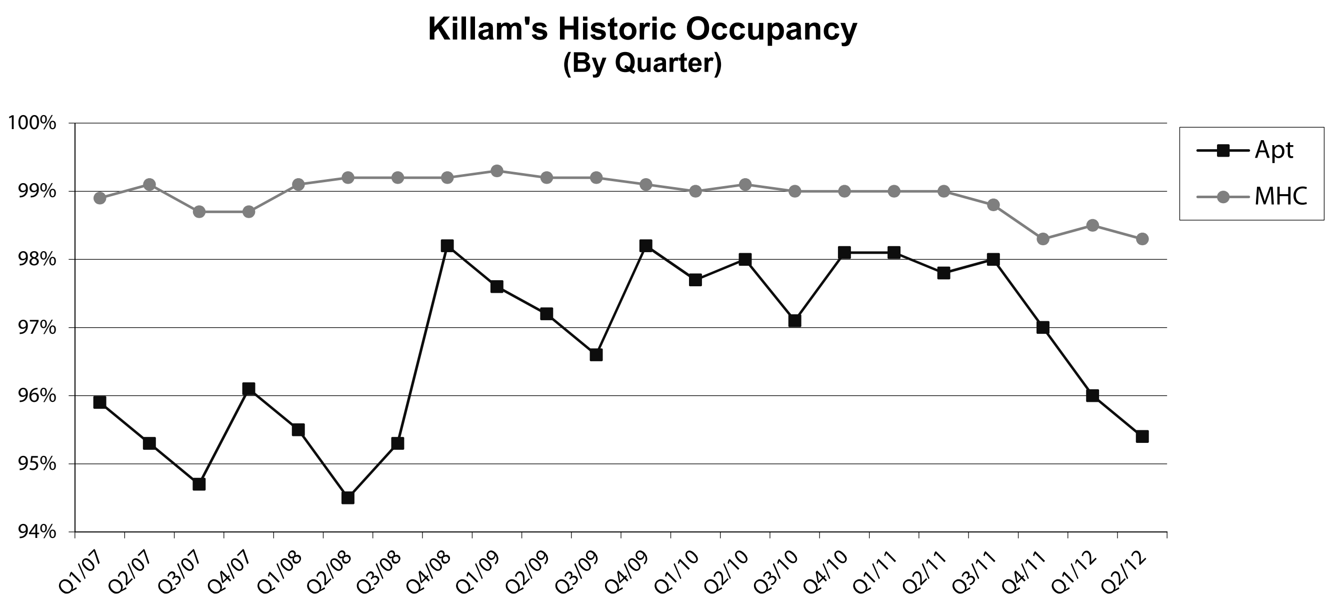
Dollar amounts in thousands (except as noted)

Occupancy by Core Market

	June 30, 2012			June 30, 2011		
	Units	Occupancy (1)	Average Rent	Units	Occupancy	Average Rent
Apartments						
Halifax, NS	4,821	95.6%	$871	4,459	97.8%	$830
Moncton, NB	1,426	94.4%	$789	1,293	97.2%	$744
Fredericton, NB	1,293	94.8%	$834	1,202	98.6%	$810
Saint John, NB	1,143	93.4%	$738	1,143	97.8%	$712
St. John's, NL	742	98.2%	$755	689	98.5%	$676
Charlottetown, PE	687	95.3%	$860	638	98.6%	$836
Ontario	834	97.5%	$1,459	362	96.1%	$1,498
Other Atlantic	448	95.3%	$765	448	97.3%	$738
Total Apartments	**11,394**	**95.4%**	**$874**	**10,234**	**97.8%**	**$813**
MHCs	**7,397**	**98.3%**	**$221**	**9,290**	**98.8%**	**$232**
Total Portfolio	**18,791**	**96.4%**		**19,524**	**98.3%**	

(1) Occupancy of stabilized properties.

Occupancy Trending



Occupancy rates displayed above represent all units in stabilized properties at the end of the relevant quarter. At June 30, 2012, Killam excluded 274 apartment units from the occupancy statistics, including two newly constructed properties acquired in 2011 and one acquired in 2012 (both in their initial lease-up phase). Excluded from the MHC occupancy statistics are 114 MHC sites that had not been previously rented or are unavailable for rent, including some expanded sites, and the 1,592 sites in Killam's seasonal resort portfolio.

As highlighted in the table and chart above, Killam's apartment occupancy levels have declined from highs maintained throughout much of late 2010 and 2011. The change in occupancy is primarily attributable to: 1) a short-term over-supply of new apartments in Halifax and Moncton, 2) vacancies associated with buildings adjacent Killam's developments in Fredericton and Halifax, 3) vacancies associated with Killam's efforts to maximize rental revenue to offset rising operating costs, and 4) a decrease in demand in rental units for Saint John, New Brunswick. The impact of lower occupancy has been more than offset by increased rental rates – up 3.5% year-over-year for the same store apartment portfolio.

Halifax, Killam's most significant market, ended the quarter at 95.6% occupancy. A higher than average increase in rental supply in the Halifax market has had a short-term impact on demand. With a large student population, demand for rental units in Halifax typically peaks in September following strong lease-up during the third quarter. Killam is seeing increased leasing activity for August and September and increased occupancy is projected for the end of the third quarter. Demand for rental units should increase in Halifax over the next number of years following expected population growth driven by the $25 billion Irving Shipbuilding Contract.

Demand for units in New Brunswick has slowed during the last year, however both the Moncton and Fredericton markets are stabilizing. Occupancy in Moncton increased to 94.4% at the end of June 2012, up from 93.3% three months earlier. Leasing activity has picked up in Moncton subsequent to the end of the quarter, and is expected to be above 96% in September.

In Fredericton, Killam has experienced vacancy associated with its Forest Hills and Princess Place properties, two of its largest assets in Fredericton, due to the development of the Plaza at Forest Hills. With most of the exterior construction work nearing completion, there has been an increase in occupancy in each of these two buildings following the end of the second quarter. Demand from students has also contributed to improved occupancy projections in Fredericton for September.

Occupancy in Saint John, New Brunswick, representing 7.2% of Killam's apartment NOI, is the lowest in the apartment portfolio, at 93.4% at the end of the second quarter. The economic growth associated with many recent energy initiatives in Saint John has cooled, impacting apartment demand. In addition, international educational programs have slowed, resulting in a decrease in rental demand from these students. Killam has responded to the slow-down in demand by offering rental incentives but expects occupancy to be slow to recover.

Following a number of years of near-full occupancy, Killam's Charlottetown portfolio ended the second quarter at 95.3% occupancy, representing 32 vacant units. Leasing activity has increased in Charlottetown subsequent to the second quarter.

The St. John's, Newfoundland, market remains strong, with Killam's apartment portfolio 98.5% occupied at June 30, 2012, and average same store rental rates up 8.4% year-over-year. Killam remains optimistic about the long-term NOI growth opportunities in the St. John's market, where, despite above average rental rate growth over the last four years, monthly rents remain affordable, averaging $755.

Killam's Ontario portfolio has posted occupancy gains from June 2011, and from March 2012. Ontario occupancy rates exclude Kanata Lakes and 180 Mill Street, both in their initial lease up-phases. Kanata Lakes, which was 58% occupied at June 30, 2012, is currently projected to be 77% occupied in September, and 180 Mill Street, 82% occupied at June 30, 2012, is expected to be 87% occupied in September.

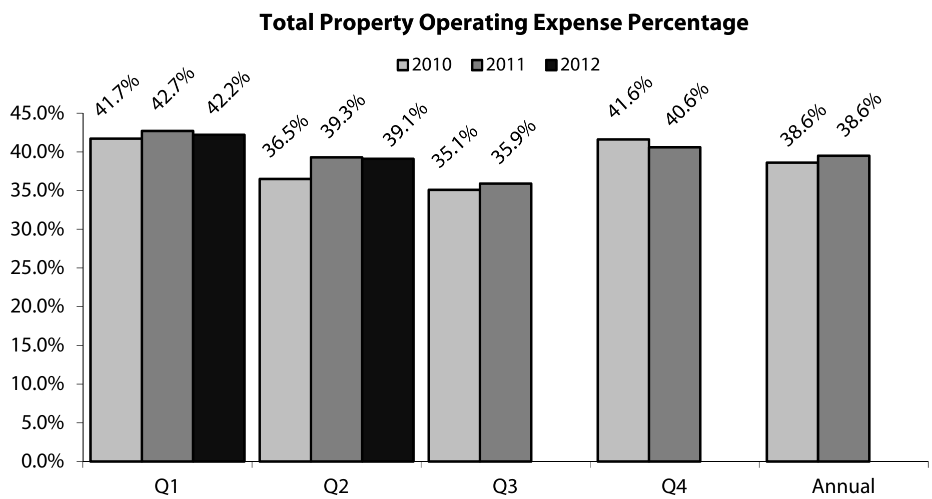
Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

Property Operating Expenses

For the 3 months ended June 30,	**2012**	2011	% Change
Same store properties	**$11,098**	$11,080	0.1%
Other properties	**2,063**	968	113.1%
	$13,161	$12,048	9.2%

For the 6 months ended June 30,	**2012**	2011	% Change
Same store properties	**$22,973**	$22,784	0.8%
Other properties	**3,970**	1,900	109.1%
	$26,943	$24,684	9.1%



Killam's property operating expenses as a percentage of operating revenue for the second quarter of 2012 was relatively flat, decreasing to 39.1% from 39.3% in the same quarter of 2011. This was attributable to decreases in fuel and utility expenses, offset by increases in operating expenses and property taxes. These variances are discussed in more detail in the same store results section.

Consolidated Same Store Results[1]

For the 3 months ended June 30,		**2012**		2011	% Change
Property revenue		**$28,081**		$27,619	1.7%
Property expenses					
Operating expenses	***17.6%***	**4,946**	*17.9%*	4,937	0.2%
Utility and fuel expenses	***10.9%***	**3,058**	*11.6%*	3,208	(4.7)%
Property taxes	***11.0%***	**3,094**	*10.6%*	2,935	5.4%
Total property expenses	***39.5%***	**11,098**	*40.1%*	11,080	0.2%
Net operating income		**$16,983**		$16,539	2.7%

Dollar amounts in thousands (except as noted)

For the 6 months ended June 30,		**2012**		2011	% Change
Property revenue		**$55,391**		$54,457	1.7%
Property expenses					
Operating expenses	***16.9%***	**9,408**	*17.0%*	9,273	1.5%
Utility and fuel expenses	***13.4%***	**7,452**	*14.1%*	7,657	(2.7)%
Property taxes	***11.0%***	**6,113**	*10.7%*	5,854	4.4%
Total property expenses	***41.5%***	**22,973**	*41.8%*	22,784	0.8%
Net operating income		**$32,418**		$31,673	2.4%

Same store property NOI increased 2.7% quarter-over quarter. Total revenues increased 1.7% due to the net positive impact of rental increases that offset a decrease in occupancy. Total property operating expenses remained relatively flat, only increasing by 0.1%. Utility costs fell by 4.7% due primarily to lower oil consumption during the quarter as a result of recent natural gas conversions and a 2% decrease in the cost of natural gas. Property tax expense increased by 5.4% in Q2 2012 compared to the same period in 2011. Please see detailed segmented same store analysis on pages 16 and 21.

1. Same store results reflect the operations for 167 stabilized properties that Killam has owned for equivalent periods in 2012 and 2011. The same store analysis includes 16,201 units, or 86% of Killam's portfolio (based on unit count). Home sales are also excluded from this analysis.

Segment & Same Store Review

Apartment Segment

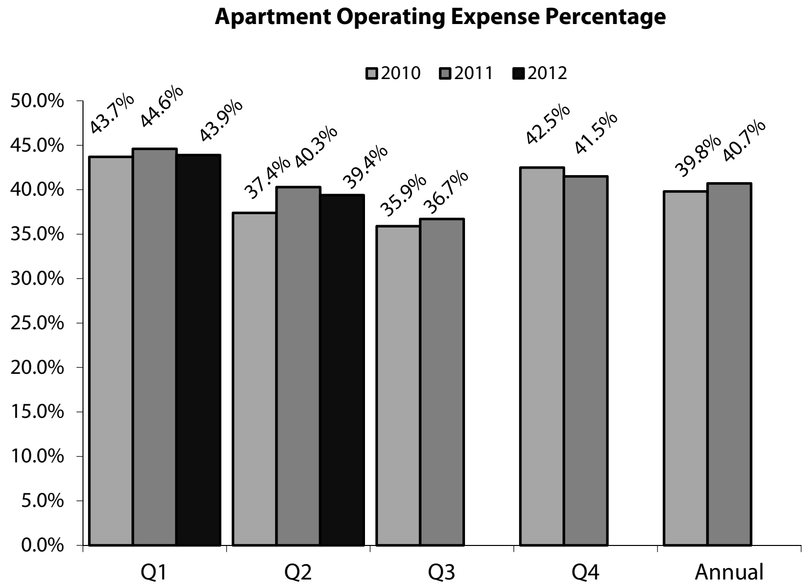
For the 3 months ended June 30,		**2012**		2011	% Change
Property revenue		**$27,399**		$24,348	12.5%
Property expenses					
Operating expenses	***16.1%***	**4,426**	*16.2%*	3,947	12.1%
Utility and fuel expenses	***10.8%***	**2,975**	*12.1%*	2,947	1.0%
Property taxes	***12.4%***	**3,405**	*11.8%*	2,864	18.9%
Total property expenses	***39.4%***	**10,806**	*40.0%*	9,758	10.7%
Net operating income		**$16,593**		$14,590	13.7%
Weighted average rent per unit		**$858**		$813	5.5%

For the 6 months ended June 30,		**2012**		2011	% Change
Property revenue		**$53,932**		$48,296	11.7%
Property expenses					
Operating expenses	***15.7%***	**8,482**	*15.7%*	7,602	11.6%
Utility and fuel expenses	***13.5%***	**7,288**	*14.8%*	7,136	2.1%
Property taxes	***12.3%***	**6,645**	*11.7%*	5,646	17.7%
Total property expenses	***41.5%***	**$22,415**	*42.2%*	$20,384	10.0%
Net operating income		**$31,517**		$27,912	12.9%

Dollar amounts in thousands (except as noted)

Killam's apartment business accounted for 80.8% of income from property operations for the 3 months ended June 30, 2012, compared to 78.0% in 2011 (79.9% year-to-date compared to 78.19% in 2011). The apartment portfolio generated total revenue growth of 12.5% in the second quarter of 2012 (11.7% year-to-date), compared to 2011. The increase was due to acquisitions in 2011 and 2012, as well as increased rents.

Total property expenses decreased in the second quarter of 2012 as a percentage of total operating revenue to 39.4% from 40.0% in the same quarter of 2011. The 60 basis point decrease is attributable to higher margins earned during the period on newer properties acquired in 2011 and 2012. A more detailed analysis of costs is presented in the same store results which follow.



Same Store Results - Apartments

For the 3 months ended June 30,		**2012**		2011	% Change
Property revenue		**$23,301**		$23,053	1.1%
Property expenses					
Operating expenses	***16.5%***	**3,854**	*16.4%*	3,756	2.6%
Utility and fuel expenses	***11.3%***	**2,632**	*12.3%*	2,811	(6.4)%
Property taxes	***12.2%***	**2,847**	*11.8%*	2,717	4.8%
Total property expenses	***40.0%***	**9,333**	*40.5%*	9,284	0.5%
Net operating income		**$13,968**		$13,769	1.4%
Weighted average rent per unit at June 30, 2012		**$842**		$813	3.5%

Dollar amounts in thousands (except as noted)

For the 6 months ended June 30,		**2012**		2011	% Change
Property revenue		**$46,572**		$45,962	1.3%
Property expenses					
Operating expenses	***16.0%***	**7,455**	*15.7%*	7,201	3.5%
Utility and fuel expenses	***14.1%***	**6,586**	*14.8%*	6,829	(3.6)%
Property taxes	***12.1%***	**5,640**	*11.8%*	5,406	4.3%
Total property expenses	***42.2%***	**$19,681**	*42.3%*	$19,436	1.3%
Net operating income		**$26,891**		$26,526	1.4%

Revenue growth of 1.1% quarter-over-quarter was primarily attributable to increased average rents of 3.6%, partially offset by increased vacancy.

Killam's apartment same store utility and fuel costs decreased 6.4% during the second quarter of 2012, compared to the same quarter of 2011 as follows:

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Natural gas and oil	**$909**	1,173	(22.5)%	**$2,831**	$3,279	(13.7)%
Electricity	**937**	909	3.1%	**2,205**	2,109	4.6%
Water	**780**	721	8.2%	**1,538**	1,423	8.1%
Other	**6**	8	(14.3)%	**12**	18	(33.3)%
Total utility and fuel	**$2,632**	$2,811	(6.4)%	**$6,586**	$6,829	(3.6)%

Natural gas and oil costs represented 35% of total utility and fuel costs in the second quarter of 2012, and 10% of total property operating expenses (43% and 14% year-to-date). Killam's apartments are heated with a combination of oil, natural gas and electricity. Apartment units heated with electricity are generally paid directly by the tenant, with Killam responsible for electricity in the common areas. Heating costs are included in rents for buildings heated with natural gas and heating oil. Killam has been reducing its reliance on heating oil through natural gas conversions in Nova Scotia and through the acquisition of properties not heated by oil. As of June 30, 2012, 17% of Killam's units were heated by oil compared to 31% a year earlier.

Killam's oil expense decreased by 35% compared to the second quarter of 2011, as a 5% increase in the average cost of oil quarter-over-quarter was more than offset by a warmer spring in 2012 and the positive benefit of natural gas conversions completed over the last year. Despite the recent gas conversions for over 1,000 units in Halifax, Killam's cost of natural gas decreased by approximately 2% in the second quarter of 2012, compared to the same quarter of 2011, due to lower costs and favourable weather reducing heating requirements. The weighted average natural gas cost during the second quarter of 2012 in Nova Scotia and New Brunswick were $6.22/Gj and $16.29/Gj, respectively, compared to $7.49 and $17.34 during the same period in 2011. The delivery rates in New Brunswick are based on market conditions and are structured to translate into a set percentage savings when compared to heating oil costs. In Nova Scotia, costs are based on a cost recovery model, a more common approach to rate setting.

Killam's electricity costs increased by 3.1% in the second quarter of 2012 compared to the same quarter of 2011 due primarily to higher electrical rates. Water charges increased 8.2% in the quarter, due to higher water rates in Nova Scotia. Killam continues to maximize its energy efficiency programs to lessen its carbon footprint and mitigate pressure from rising utility prices.

Dollar amounts in thousands (except as noted)

Apartment Same Store NOI – by city

For the 3 months ended June 30,	**2012**	2011	% Change
Halifax	**$6,603**	$6,322	4.4%
Moncton	**1,318**	1,351	(2.4)%
Fredericton	**1,191**	1,209	(1.5)%
Saint John	**1,218**	1,275	(4.5)%
Ontario	**1,078**	1,062	1.5%
St. John's	**1,043**	961	8.5%
Charlottetown	**978**	970	0.8%
Other	**539**	619	(12.9)%
	$13,968	$13,769	1.4%

For the 6 months ended June 30,	**2012**	2011	% Change
Halifax	**$12,869**	$12,294	4.7%
Moncton	**2,497**	2,548	(2.0)%
Fredericton	**2,269**	2,420	(6.2)%
Saint John	**2,280**	2,362	(3.5)%
Ontario	**2,123**	2,060	3.1%
St. John's	**1,992**	1,838	8.4%
Charlottetown	**1,840**	1,849	(0.5)%
Other	**1,021**	1,155	(11.6)%
	$26,891	$26,526	1.4%

Killam has experienced significant same store NOI growth in both the Halifax and St. John's markets during the three and six month periods ended June 30, 2012. This is a result of increased average rents in both of these locations. A decrease in demand for rental units in the various markets within New Brunswick has resulted in lower same store NOI during the second quarter.

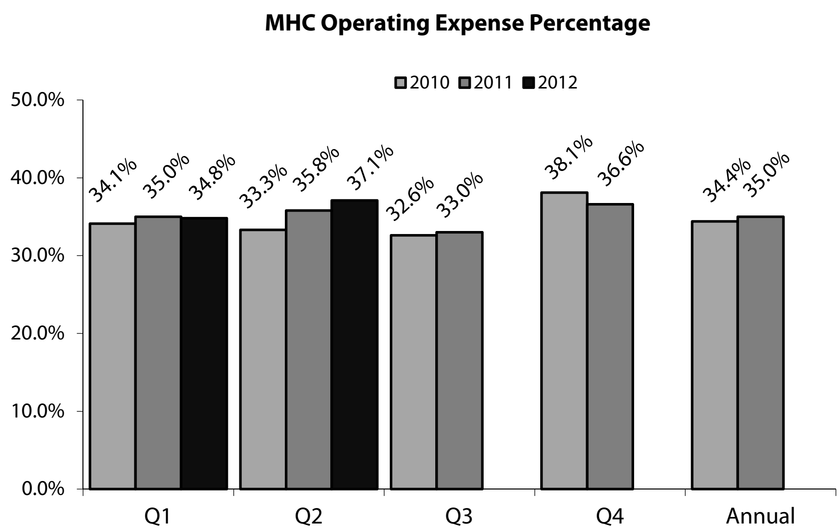
MHC Segment

For the 3 months ended June 30,		**2012**		2011	% Change
Property revenue		**$6,155**		$6,387	(3.7)%
Property expenses					
Operating expenses	***22.5%***	**1,385**	*23.0%*	1,467	(5.6)%
Utility and fuel expenses	***9.7%***	**598**	*8.6%*	552	8.3%
Property taxes	***4.9%***	**300**	*4.2%*	271	11.0%
Total property expenses	**37.1%**	**2,283**	*35.8%*	2,290	(0.3)%
Net operating income		**$3,872**		$4,097	(5.5)%
Weighted average rent per unit		**$220**		$232	(5.1)%

Dollar amounts in thousands (except as noted)

For the 6 months ended June 30,		**2012**		2011	% Change
Property revenue		**$12,201**		$12,138	0.5%
Property expenses					
Operating expenses	***20.6%***	**2,513**	*21.3%*	2,590	(3.0)%
Utility and fuel expenses	***10.5%***	**1,281**	*9.6%*	1,161	10.3%
Property taxes	***4.9%***	**594**	*4.5%*	549	8.2%
Total property expenses	**36.0%**	**4,388**	*35.4%*	4,300	2.0%
Net operating income		**$7,813**		$7,838	(0.3)%

Killam's MHC business accounted for 19.0% of earnings from property operations during the second quarter of 2012 compared to 22.1% in 2011 (20.0% year-to-date compared to 22.1% in 2011). Revenue from the MHCs decreased by $0.2 million, or 3.7%, compared to 2011, due primarily to the sale of twelve MHC properties which occurred on May 31, 2012, offset by rental increases at the remaining properties ($0.1 million or 0.5% year-to-date). For a more detailed analysis please see the MHC Same Store section on page 21.



MHC – Detailed Segments

The following tables break out the revenue and operating costs for Killam's seasonal communities compared to traditional MHCs.

For the 3 months ended June 30, 2012		**Seasonal Communities**		**Traditional MHCs**	**Total**
Property revenue		**$925**		**$5,230**	**$6,155**
Property expenses					
Operating expenses	***45.3%***	**419**	***18.5%***	**966**	**1,385**
Utility and fuel expenses	***1.0%***	**9**	***11.3%***	**589**	**598**
Property taxes	***4.3%***	**40**	***5.0%***	**260**	**301**
Total property expenses	***50.6%***	**468**	***34.7%***	**1,815**	**2,284**
Net operating income		**$457**		**$3,415**	**$3,872**

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

For the 3 months ended June 30, 2011		Seasonal Communities		Traditional MHCs	Total
Property revenue		$839		$5,548	$6,387
Property expenses					
Operating expenses	*52.0%*	436	*18.6%*	1,031	1,467
Utility and fuel expenses	*1.4%*	12	*9.7%*	540	552
Property taxes	*1.9%*	16	*4.6%*	255	271
Total property expenses	*55.3%*	464	*32.9%*	1,826	2,290
Net operating income		$375		$3,722	$4,097

Of Killam's 44 MHCs, 7 are seasonal communities, offering residents an affordable cottage alternative and include a combination of year-long residents, seasonal residents (with full season leases) and short-term renters, representing 14%, 60%, and 26% of the rental revenue generated, respectively. Seasonality plays a considerable role in the timing of revenue generation with 25% of revenues earned during the second quarter and 55% of revenue earned during the third quarter. Seasonal Communities generated NOI growth of 21.9% during the second quarter of 2012 due to an 11.0% increase in revenues, attributable to favorable spring weather and generally stable operating costs.

For the 6 months ended June 30, 2012		**Seasonal Communities**		**Traditional MHCs**	**Total**
Property revenue		**$1,106**		**$11,095**	**$12,201**
Property expenses					
Operating expenses	***51.5%***	**569**	***17.5%***	**1,944**	**2,513**
Utility and fuel expenses	***3.4%***	**38**	***11.2%***	**1,243**	**1,281**
Property taxes	***6.0%***	**66**	***4.8%***	**528**	**594**
Total property expenses	***60.9%***	**673**	***33.5%***	**3,715**	**4,388**
Net operating income		**$433**		**$7,380**	**$7,813**

For the 6 months ended June 30, 2011		Seasonal Communities		Traditional MHCs	Total
Property revenue		$1,022		$11,116	$12,138
Property expenses					
Operating expenses	*53.8%*	550	*18.4%*	2,040	2,590
Utility and fuel expenses	*3.2%*	33	*10.1%*	1,128	1,161
Property taxes	*5.1%*	52	*4.5%*	497	549
Total property expenses	*62.1%*	635	*33.0%*	3,665	4,300
Net operating income		$387		$7,451	$7,838

Dollar amounts in thousands (except as noted)

Same Store Results - MHCs

For the 3 months ended June 30,		**2012**		2011	% Change
Property revenue		**$4,780**		$4,565	4.7%
Property expenses					
Operating expenses	***22.8%***	**1,092**	*25.9%*	1,181	(7.5)%
Utility and fuel expenses	***8.9%***	**426**	*8.7%*	397	7.3%
Property taxes	***5.2%***	**248**	*4.8%*	218	13.8%
Total property expenses	**36.9%**	**1,766**	*39.3%*	1,796	(1.7)%
Net operating income		**$3,014**		$2,769	8.8%
Weighted average rent per unit at June 30, 2012		**$217**		$209	3.8%

For the 6 months ended June 30,		**2012**		2011	% Change
Property revenue		**$8,818**		$8,495	3.8%
Property expenses					
Operating expenses	***22.1%***	**1,952**	*24.43%*	2,073	(5.8)%
Utility and fuel expenses	***9.8%***	**866**	*9.7%*	828	4.6%
Property taxes	***5.4%***	**473**	*5.3%*	449	5.3%
Total property expenses	**37.3%**	**3,291**	*39.4%*	3,350	(1.8)%
Net operating income		**$5,527**		$5,145	7.4%

Property revenue increased 4.7% for the three month period ended June 30, 2012 as a result of an average rent increase of 3.8% for the Company's traditional MHC sites and increased rates and activity at the seasonal sites.

Total property expenses decreased 1.7% in the second quarter of 2012 compared to 2011 and decreased 240 basis points as a percentage of revenue (36.9% compared to 39.3%). Operating costs decreased 7.5% quarter-over-quarter due primarily to lower repair and maintenance costs associated with water and sewer repairs. Utility costs increased 7.3% quarter-over-quarter as water rates increased at a number of communities. A 13.8% increase in property taxes in the quarter reflects increased assessments, as well as a timing difference in property tax recoveries associated with some MHCs in Ontario.

Home Sales

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Home sales revenue	**$884**	$892	(0.9)%	**$1,061**	$1,146	(7.4)%
Cost of home sales	**(659)**	(765)	(13.9)%	**(810)**	(1,057)	(23.4)%
New home placement fees	**25**	19	31.6%	**63**	24	162.5%
Operating expenses	**(19)**	(25)	(24.0)%	**(39)**	(56)	(30.4)%
Income from home sales	**$231**	$121	90.9%	**$275**	$57	382.5%

Killam completed 6 home sale and 3 home sale placements during the second quarter of 2012, compared to 8 home sales and 3 home sale placements in 2011. Killam closed or has commitments to close an additional 5 homes in the third quarter of 2012. Management continually monitors sales activities in each market and based on current information anticipates home sales for 2012 to be between 22 and 27 units. Killam's sales forecast has decreased from the first quarter as some of the 12 communities sold on May 31, 2012 included communities with home sale potential.

Home sale operating expenses include all costs associated with marketing homes, including open houses, advertising costs, etc.

Dollar amounts in thousands (except as noted)

Equity Income

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**$199**	$—	—%	**$300**	$—	—%

Equity income represents Killam's 25% interest in the net income of the joint ventures which own the 180 Mill Street, Kanata Lakes and Silver Spear assets. During the three months ended June 30, 2012, equity income was earned for the full three month period related to 180 Mill Street ($0.08 million), 1.5 months related to Kanata Lakes ($0.08 million) and one month related to Silver Spear ($0.05 million) as a result of the timing of the acquisitions.

A summary of the performance of the three properties is included below. The properties were all originally acquired without debt, however, mortgages were placed on two of the properties during the period. The timing of the placement of mortgages resulted in lower than normal interest expense compared to the rest of Killam's real estate portfolio.

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Property revenue	**$1,216**	$—	—%	**$1,781**	$—	—%
Property operating expenses	**364**	—	—%	**526**	—	—%
Net operating income	**852**	—	—%	**1,255**	—	—%
Interest expense	**53**	—	—%	**53**	—	—%
Net income	**$799**	—	—%	**$1,202**	—	—%
Killam's 25% interest	**$199**	$—	—%	**$300**	$—	—%

Miscellaneous Corporate Income

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**$309**	$91	239.5%	**$453**	$138	228.3%

Miscellaneous corporate income includes interest on bank accounts, property management fees and revenues related to the joint venture partnership. During the quarter the Company earned revenues of $0.2 million, related to the two property acquisitions through the Company's joint venture partnership which are non-recurring.

Fair Value Gains

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Apartments	**$14,792**	$15,144	(2.3)%	**$19,898**	$24,401	(18.5)%
MHCs	**(138)**	(203)	(32.0)%	**1,491**	3,575	(58.3)%
	$14,930	$14,941	(0.1%)	**$21,389**	$27,976	(23.5)%

The effective weighted average Cap-Rate used to value the apartment properties decreased by 10 basis points from December 31, 2011 to June 30, 2012 (a 12 basis point decrease during the same period in 2011), reflecting an increased valuation for some properties in both periods. The effective weighted average Cap-Rates used to value the MHCs was flat during the second quarter of 2012 and remained steady in the same period in 2011. See further discussion on Cap-Rates in the "Investment Properties" section of the MD&A.

Dollar amounts in thousands (except as noted)

Other Expenses

Financing Costs

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Mortgage and loan interest	**$7,270**	$7,083	2.7%	**$14,563**	$14,148	2.9%
Convertible debenture interest	**1,653**	1,119	47.7%	**3,311**	2,071	59.9%
Subordinated debenture interest	**175**	170	2.9%	**354**	343	3.2%
Capitalized interest	**(198)**	(29)	582.8%	**(321)**	(29)	1006.9%
	$8,900	$8,343	6.7%	**$17,907**	$16,533	8.3%

Mortgage and loan interest expenses were higher during the second quarter of 2012, on a gross dollar basis, compared to 2011, due to the increase in the mortgage portfolio related primarily to the Company's 2011 and 2012 acquisitions offset by the disposal of twelve MHC properties during the second quarter of 2012. Mortgage and loan interest expense on Killam's same store properties was $5.0 million in the second quarter of 2012, down slightly from $5.3 million in 2011 ($9.9 million compared to $10.6 million year-to-date). As a percentage of property revenue, same store mortgage and loan interest expense was lower during Q2-2012, at 17.9%, compared to 19.3% in the same quarter of 2011.

Convertible debenture interest was higher in the second quarter of 2012 as the Company issued $46.0 million in convertible debentures bearing interest at a rate of 5.45% on June 2, 2011.

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at June 30, 2012 would affect financing costs by approximately $6.2 million per year. However, only $67.4 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $0.7 million per annum. See further discussion regarding Killam's mortgage refinancings under the "Mortgage and Debentures Payable" section beginning on page 35. The Company's credit facility is discussed on page 37 of the MD&A.

Depreciation Expense

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**$104**	$105	(1.0%)	**$201**	$177	13.6%

Depreciation expense relates to the Company's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer equipment. These assets do not form part of the Company's investment properties. Although the vehicles and equipment are used at various properties they are not considered part of investment properties and are depreciated for accounting purposes. The decrease quarter over quarter is a result of the sale of the MHC properties at the end of May 2012. The increase during the six months ended June 30, 2012 is a result of the Company's acquisition of a 50% interest in its head office building in November 2011 offset by the sale of the MHC properties.

Amortization of Deferred Financing Costs

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**$410**	$324	26.5%	**$829**	$628	7.6%

Deferred financing amortization increased $0.1 million quarter-over-quarter as the Company issued $46.0 million convertible debentures bearing interest at 5.45% on June 2, 2011. The costs related to mortgage assumption fees, application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible and subordinated debentures are amortized over the terms of the debentures.

Dollar amounts in thousands (except as noted)

General and Administrative Expenses

	3 months ended June 30,			6 months ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Total	**$2,362**	$1,901	24.2%	**$4,287**	$3,553	20.6%
As a percentage of total revenues	**6.6%**	6.0%		**6.3%**	5.8%	

General and administrative expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management salaries and benefits, office rent, communication costs, office equipment leases, professional fees and other head office and regional office expenses. Management targets annualized general and administrative costs at approximately 6.0% of total revenues. During the three and six months ended June 30, 2012 the percentage of general and administrative expenses as a percentage of revenues were higher than 6% as a result of increased labour costs and severance costs during the period.

Loss on Disposition

During the second quarter of 2012, the Company disposed of twelve MHC properties located in Western Canada and Ontario. The loss on disposition of the investment property of $1.1 million represents the difference between the proceeds from disposition compared to the fair value of the property less the carrying costs of the related mortgages.

Deferred Income Tax

The Company has booked future income tax expense for the three and six months ended June 30, 2012 and 2011. Killam is not currently cash taxable and does not expect to pay cash taxes in the near future. The Company has not claimed the maximum Capital Cost Allowance (CCA) allowed over the past number of years and has the ability to reduce taxable income through increasing these claims along with the use of loss carryforwards. Based on the assumption that the Company does not add to its asset base, management estimates it would take approximately three to four years to fully utilize these deductions and begin paying cash taxes.

Dollar amounts in thousands (except as noted)

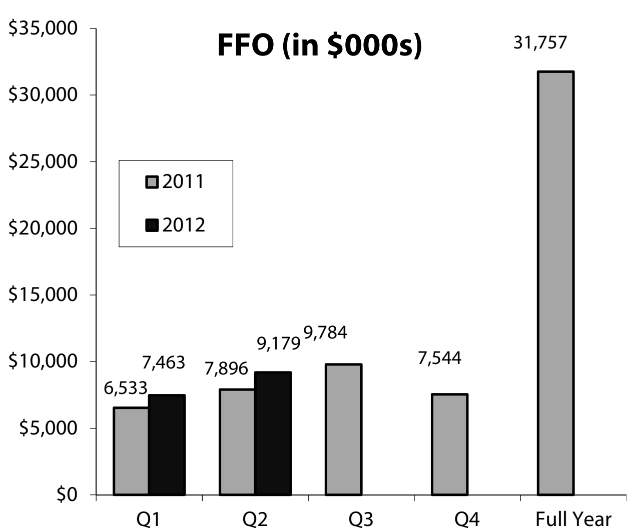
Funds from Operations (FFO)

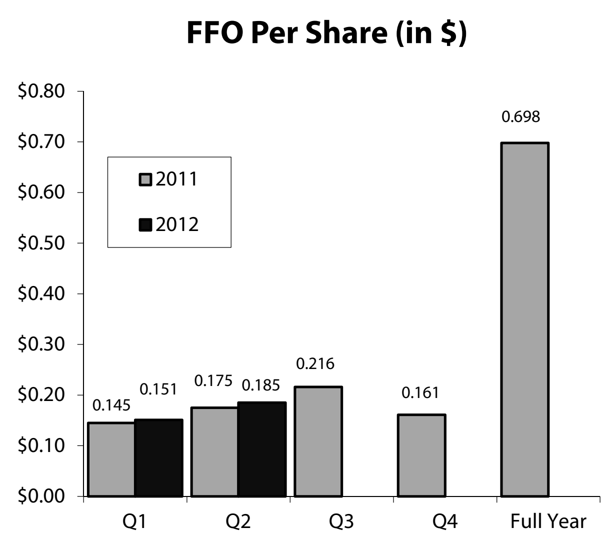
FFO is recognized as the industry-wide standard measure for real estate entities' operating performance, and management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO in accordance with the REALpac definition as follows:

	3 months ended June 30			*6 months ended June 30*		
	2012	2011	% Change	**2012**	2011	% Change
Net income	**$18,726**	$18,192		**$29,740**	$36,534	
Fair value gains	**(14,930)**	(14,941)		**(21,389)**	(27,976)	
Loss on disposal	**1,100**	—		**1,100**	—	
Non-controlling interest *(before tax and gains)*	**(235)**	(237)		**(478)**	(451)	
Deferred income tax expense	**4,518**	4,882		**7,668**	6,323	
Funds from operations	**$9,179**	$7,896	16.2%	**$16,641**	$14,430	15.3%
FFO/share – basic	**$0.185**	$0.175	5.7%	**$0.336**	$0.320	5.0%
FFO/share - diluted	**$0.183**	$0.173	5.8%	**$0.333**	$0.317	5.0%
Weighted average shares - basic (000's)	**49,623**	45,097	10.0%	**49,494**	45,046	9.9%
Weighted average shares – diluted (000's)	**50,137**	45,511	10.2%	**50,007**	45,441	10.0%

(1) The calculation of weighted average shares outstanding for diluted FFO and AFFO purposes excludes the convertible debentures as they are anti-dilutive.

Killam earned FFO of $9.2 million, or $0.185 per share, during the second quarter of 2012 compared to $7.9 million or $0.175 per share during the second quarter of 2011. The 5.7% growth in FFO per share was primarily attributable to the positive NOI contribution from acquisitions during 2011 and 2012 and same store property growth offset by the lost NOI related to the sale of the twelve MHC communities. Partially offsetting this growth was an increase in interest expense attributable to the convertible debentures and a 10.0% increase in the weighted average shares outstanding associated with the November 2011 equity raise.





Dollar amounts in thousands (except as noted)

FFO Per Share Reconciliation

	FFO per share
FFO per share – Q2 2011	**$0.175**
Acquisitions - Impact from 2011 and 2012 acquisitions.	**0.027**
Increased FFO from same store properties – 2.7% increase NOI and a decrease in interest costs on mortgage debt.	**0.018**
Increases attributable to home sales and property management fees earned.	**0.003**
Other various savings, including a decrease in provincial taxes.	**0.002**
Increased convertible debenture interest - Higher interest expense associated with increased convertible debentures outstanding following the June 2011 capital raise, partially offset by increased capitalized interest associated with developments.	**(0.008)**
Increase in weighted average shares outstanding - Killam completed a public share offering of 3.7 million shares in November 2011.	**(0.020)**
Increase in general and administrative expenses.	**(0.010)**
Increase in amortization of deferred financing costs.	**(0.002)**
Funds from operations	**$0.185**

Adjusted Funds From Operations

Adjusted Funds From Operations (AFFO) is a supplemental measure used by real estate analysts and some investors to represent the FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio. AFFO is a non-IFRS measure and management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining the earning capacity of an asset compared to the capital expenditures that will lead to higher rents or more efficient operations.

In order to provide analysts and investors with information to assist in assessing the Company's payout ratio, management has calculated AFFO using the industry standard of $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures so Management has assumed $100 per MHC site as a reasonable estimate of non-NOI enhancing capital expenditures per MHC site. The weighted average number of rental units owned during the period was used to determine the capital adjustment applied to FFO.

	3 months ended June 30			*6 months ended June 30*		
	2012	2011	% Change	**2012**	2011	% Change
Funds from operations	**$9,179**	$7,896	16.2%	**$16,641**	$14,430	15.3%
Maintenance Capital Expenditures						
Apartments	**(1,223)**	(1,115)	9.6%	**(2,413)**	(2,230)	8.2%
MHCs	**(211)**	(232)	(9.3%)	**(421)**	(465)	(9.4%)
Adjusted funds from operations	**$7,745**	$6,549	18.3%	**$13,807**	$11,735	17.7%
AFFO/ share	**$0.156**	$0.145	7.6%	**$0.279**	$0.261	7.1%
AFFO Payout Ratio (1)	**93%**	98%	↓500 bps	**104%**	108%	↓400 bps

(1) 2012 based on Killam's annualized dividend of $0.58 for the period January-June. 2011 based on annualized dividend of $0.56 for the period January to May and $0.58 for June.

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

Sources and Uses of Cash

Killam's cash flow from operations, financing and investing activities is summarized below:

	3 months ended June 30		6 months ended June 30	
	2012	2011	**2012**	2011
Cash provided by operating activities	**$11,814**	$6,576	**$16,904**	$18,073
Cash (used in) provided by financing activities	**(8,577)**	44,587	**(4,278)**	40,462
Cash provided by (used in) investing activities	**4,033**	(27,315)	**(29,275)**	(35,901)
Net increase (decrease) in cash	**$7,270**	$23,848	**$(16,649)**	$22,634

Cash from operating activities increased by $5.2 million compared to 2011, as a result of earnings as well as the effect of changes in working capital ($1.2 million decrease year-to-date).

Killam's net cash used by financing activities was $8.6 million during the second quarter. This balance is comprised of cash inflows from the issuance of shares on the exercise of options and warrants of $1.5 million, positive net cash flow of $1.2 million from mortgage financings and refinancings offset by cash dividend payments of $6.1 million, regular principal debt payments of $4.8 million and deferred financing fees of $0.2 million.

Cash provided by investing activities was $4.0 million in the second quarter of 2012 ($29.3 million used for financing activities year-to-date). A reconciliation of cash provided by (used in) investing activities is shown below:

	3 months ended June 30		6 months ended June 30	
	2012	2011	**2012**	2011
Acquisitions *(net of debt assumed)*	**$(225)**	$(23,255)	**$(26,644)**	$(25,695)
Equity investments	**(19,247)**	—	**(19,247)**	—
Distributions from equity investments	**4,031**	—	**4,042**	—
Capital improvements	**(4,769)**	(3,820)	**(8,211)**	(6,306)
Developments	**(11,159)**	(2,632)	**(16,783)**	(4,536)
Net proceeds on disposition	**33,923**	—	**33,923**	—
Acquisition of non-controlling interest	—	—	**(17)**	—
Net cash provided by (used for) capital assets	**$2,554**	$(29,707)	**$(32,937)**	$(36,537)
Decrease in restricted cash	**1,479**	2,392	**3,662**	636
Cash provided by (used for) investing activities	**$4,033**	$(27,315)	**$(29,275)**	$(35,901)

Killam believes that cash generated by operations and refinancing of mortgages maturing in 2012 and 2013 will be sufficient to meet its anticipated cash requirements for operations, including dividend payments, regular principal repayments and capital requirements for the existing portfolio.

Consolidated Balance Sheet

Investment Properties

As at	**June 30, 2012**	December 31, 2011	% Change
Apartments	**$1,073,320**	$1,012,847	6.0%
MHCs	**161,922**	231,747	(30.1)%
Other	**2,056**	2,051	0.2%
Fair value	**$1,237,298**	$1,246,645	(0.7%)

Dollar amounts in thousands (except as noted)

Killam's investment properties were valued at $1.23 billion at June 30, 2012, down $9.3 million, or 0.8% from the fair value of $1.24 billion at December 31, 2011. The decrease in the fair value of the investment properties is a result of the sale of twelve MHC properties which attributed a decrease of $72.9 million offset by acquisitions of $34.3 million, capital investments of $7.9 million and a decrease in the weighted average Cap-Rates used to determine the fair market value of the apartment portfolio resulting in a fair value adjustment of $21.4 million.

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the Cap-Rate for each property. A summary of the Cap-Rates used for each of June 30, 2012, December 31, 2011, and June 30, 2011 as provided by Killam's independent appraiser, are as follows:

	June 30, 2012			December 31, 2011			June 30, 2011		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments	**5.30%**	**8.00%**	**6.09%**	5.50%	8.00%	6.19%	5.70%	7.75%	6.35%
MHCs	**6.50%**	**8.50%**	**7.28%**	6.75%	9.40%	7.28%	6.75%	8.50%	7.44%

As highlighted in the above chart, the effective weighted average Cap-Rate used to value the apartment properties decreased by 10 basis points from December 31, 2011 to June 30, 2012, reflecting an increased valuation for some properties. The effective weighted average Cap-Rates used to value the MHCs remained flat from December 31, 2011. The chart above also highlights that there was Cap-Rate compression from June 30, 2011 to June 30, 2012 with the weighted average apartment rate decreasing 26 basis points in the period and MHC Cap-Rates decreasing 16 basis points.

The impact of a 10 basis point change in the Cap-Rate used to value the investment properties would affect the fair value as follows:

	June 30, 2012			December 31, 2011		
	Effective Weighted Average	**Increase**	**Decrease**	Effective Weighted Average	Increase	Decrease
Apartments	**6.09%**	**$17,325**	**$17,903**	6.19%	$16,251	$16,785
MHCs	**7.28%**	**2,193**	**2,254**	7.28%	3,126	3,213
Total		**$19,518**	**$20,157**		$19,377	$19,998

The impact of a 1% change in net operating income used to value the investment properties would affect the fair value as follows:

	June 30, 2012		December 31, 2011	
	Effective Weighted Average	**Change**	Effective Weighted Average	Change
Apartments	**6.09%**	**$10,730**	6.19%	$10,215
MHCs	**7.28%**	**1,619**	7.28%	2,309
Total		**$12,439**		$12,524

Dollar amounts in thousands (except as noted)

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the three and six months ended June 30, 2012 and 2011, highlighting the fair value adjustment that flows through the income statement for each period.

	3 months ended June 30		*6 months ended June 30*	
	2012	2011	**2012**	2011
Balance, beginning of period	**$1,290,392**	$1,099,601	**$1,246,645**	$1,081,778
Acquisition of properties	**226**	40,436	**34,318**	42,876
Disposition of properties	**(72,973)**	—	**(72,973)**	—
Transfer to investment properties under construction	—	(5,373)	—	(5,373)
Capital expenditures	**4,724**	3,734	**7,919**	6,082
Fair value adjustments – Apartments	**15,067**	15,144	**19,898**	24,401
Fair value adjustment – MHCs	**(138)**	(203)	**1,491**	3,575
Balance, end of period	**$1,237,298**	$1,153,339	**$1,237,298**	$1,153,339

2012 Acquisitions – Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Total
Apartments					
Chapter House [1]	Halifax	26-Feb-12	2004	41	$14,029
Brentwood	Halifax	22-Mar-12	1968	240	20,066
					$34,095
Other Misc.					1
					$34,096
MHCs & Other					
Costs associated with 2011 acquisitions and acquisition of 668 Forest Hills Road					$222
Investment Property Acquisitions					**$34,318**
Investment Property Acquisitions through Joint Ventures[2]					
Kanata Lakes	Ontario	15-May-12	2012	146	$10,956
Silver Spear	Ontario	31-May-12	1968	199	8,486
					$19,442
Total Acquisitions					**$53,760**

(1) Chapter House also has 14,500 square feet of commercial space

(2) The investment property acquired represents Killam`s 25% interest in the properties. The acquisitions are recorded as part of the Killam`s investments and are accounted for using the equity method.

Dollar amounts in thousands (except as noted)

2012 Dispositions – Investment Properties

Property	Location	Disposal Date	Site	Acres	Fair Value at Disposition
MHCs					
The Poplars	British Columbia	31-May-12	130	36	$7,388
Lynwood Estates	Alberta	31-May-12	110	18	4,370
Evergreen Estates	Alberta	31-May-12	73	11	2,298
Hillpark Estates	Alberta	31-May-12	136	18	4,667
Sunset Estates	Saskatchewan	31-May-12	247	77	7,839
Bayview Estates	Ontario	31-May-12	146	60	4,047
Fergushill Estates	Ontario	31-May-12	152	49	6,035
Golden Horseshoe Estates	Ontario	31-May-12	267	33	8,806
Green Haven Estates	Ontario	31-May-12	230	45	9,120
Parkside Estates	Ontario	31-May-12	144	80	5,124
Silver Creek Estates	Ontario	31-May-12	237	80	10,520
Sunny Creek Estates	Ontario	31-May-12	160	53	2,759
					$72,973

Capital Improvements

Killam invests capital to maintain, and improve, the operating performance of its properties. During the second quarter of 2012, Killam invested a total of $4.7 million, compared to $3.7 million in the same quarter of 2011. Capital investments in the year are added to the book value of the investment properties to determine the fair value adjustment.

	3 months ended June 30			*6 months ended June 30*		
	2012	2011	% Change	**2012**	2011	% Change
Apartments	**$3,736**	$2,125	75.8%	**$6,295**	$3,859	63.1%
MHCs	**983**	1,609	(38.9)%	**1,619**	2,223	(27.2)%
Other	**5**	—	—	**5**	—	—
Total	**$4,724**	$3,734	26.5%	**$7,919**	$6,082	30.2%

Management's Discussion and Analysis:

Dollar amounts in thousands (except as noted)

Apartments

A summary of the capital spend on the apartment segment is included below:

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Building improvements	**1,772**	938	88.9%	**3,051**	1,726	76.8%
Suite renovations	**1,227**	762	61.0%	**2,034**	1,487	36.8%
Land improvements	—	1	—	**12**	1	1100.0%
Boilers and heating equipment	**475**	188	152.7%	**707**	235	200.9%
Appliances	**165**	134	23.1%	**267**	217	23.0%
Parking lots	**5**	7	(28.6)%	**6**	7	(14.3)%
Equipment	**50**	68	(26.5)%	**117**	138	(15.2)%
Other	**47**	27	74.1%	**106**	48	120.8%
Total capital spend – Apartments	**$3,741**	$2,125	76.0%	**$6,300**	$3,859	63.3%
Average units outstanding	**10,867**	9,913	9.6%	**10,726**	9,913	8.2%
Capital spend per unit	**$344**	$231	48.9%	**$587**	$388	51.3%

Management expects to spend between $800 and $900 in capital per apartment unit on an annual basis and estimates that $450 per unit of the capital spending relates to maintenance capital, and the remainder relates to value enhancing upgrades. Maintenance capital relates to investments that are not expected to lead to an increase in the NOI, or increased efficiency, of a building; however it may extend the life of a building. Examples of maintenance capital include roof and structural repairs. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. This includes unit and common area upgrades and energy investments, such as natural gas conversions.

The timing of capital spending may be influenced by tenant turnover, market conditions, and individual property requirements, causing annual variability in capital spending. In addition, the length of time that Killam has owned a property and the age of the property can influence the annual capital requirements.

Year-to-date Killam has spent $590/unit compared to $388/unit in the first six months of 2011. Included in the costs are $0.3 million related to natural gas conversions in Halifax and $1.1 million of work related to the properties adjacent to the development sites. Excluding these items capital expenditures year-to-date are $4.8 million or $456 per unit.

MHCs

	3 months ended June 30			6 months ended June 30		
	2012	2011	% Change	**2012**	2011	% Change
Water & sewer upgrades	**$712**	1,358	(47.6)%	**1,087**	1,891	(42.5)%
Roads and paving	**126**	99	27.3%	**159**	100	59.0%
Equipment	**18**	25	(28.0)%	**27**	32	(15.6)%
Other	**102**	101	1.0%	**211**	168	25.6%
Site expansions	**25**	26	(3.8)%	**135**	32	321.9%
Total capital spend – MHCs	**$983**	$1,609	(38.9)%	**$1,619**	$2,223	(27.2)%
Average units outstanding	**8,425**	9,290	(9.3)%	**8,425**	9,290	(9.3) %
Capital spend per unit	**$117**	$173	(32.4%)	**$192**	$239	(19.7)%

Management expects to spend between $300 and $400 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and some is value enhancing.

Dollar amounts in thousands (except as noted)

Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of some capital projects will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI for the investment. As with the apartment portfolio, the timing of capital spending changes based on requirements at each community. Costs year-to-date are down primarily due to a reduction in water and sewer infrastructure.

Investment Properties under Construction

	3 months ended June 30		*6 months ended June 30*	
	2012	2011	**2012**	2011
Balance, beginning of period	**$17,198**	$2,937	**$11,574**	$1,033
Capital expenditures	**10,961**	2,603	**16,462**	4,507
Transfer from investment properties	**—**	5,373	**—**	5,373
Interest capitalized	**198**	29	**321**	29
Balance, end of period	**$28,357**	$10,942	**$28,357**	$10,942

Killam's investment properties under construction are recorded at fair value. As at June 30, 2012 the fair value of investment properties under construction was equal to the costs attributable to the developments to-date, including land costs, development costs, realty taxes and borrowing costs attributable to the properties. Killam did not record any fair value adjustment associated with its development projects during the three or six months ended June 30, 2012.

Killam's Investment Properties under Construction at June 30, 2012 are summarized as follows:

Project Name	Location	Units	Start Date	Expected Completion	Projected Cost	Construction Costs to Date[1]	% Complete
					($millions)	*($millions)*	
S2	Halifax, NS	63	Q2 2011	Q1 2013	$16.2	$4.3	26%
The Plaza at Forest Hills	Fredericton, NB	101	Q2 2011	Q1 2013	23.5	9.5	40%
Brighton House	Charlottetown, PE	47	Q3 2011	Q1 2013	6.9	2.5	36%
Bennett House	St. John's, NL	71	Q4 2011	Q1 2013	15.3	5.2	34%
Total		282			$61.9	$21.5	

(1) Excludes all land costs

The total project development costs during the quarter increased by $1.9 million or 3.2%. The increase is primarily attributable to increased costs related to the Bennett House which increased by $1.2 million due to certain fixed contracts that were higher than expected. Offsetting these increases is very strong preleasing activity, with approximately 40% of the 71 units already preleased. The strong demand had resulted in the ability to increase the asking rent above anticipated levels.

The costs associated with the S2 development have increased by $0.7 million due to suite enhancements that were not included in the original budget related to hardwood flooring and other high end finishes. This increased cost is expected to be offset by higher than originally expected rental revenues.

We continue to expect all of the projects to be ready for occupancy by Q1 2013 with final construction being completed during Q2. To-date construction costs have been funded from cash-on-hand. On a go-forward basis, the remaining costs will be covered by construction financing with debt expected to cover 60% of the total costs. Subsequent to quarter-end, construction financing has been arranged.

Dollar amounts in thousands (except as noted)

The increase in costs at some of the developments is expected to impact the all-cash yield. Management is anticipating a year-one return of between 5% and 6% on its developments, and minimal capital requirements for the next ten to fifteen years.

Investments

	3 months ended June 30		*6 months ended June 30*	
	2012	2011	**2012**	2011
Balance, beginning of period	**$8,510**	$—	**$8,420**	$—
Additions:				
25% interest in Kanata Lakes	**10,956**	—	**10,956**	—
25% interest in Silver Spear	**8,486**	—	**8,486**	—
Share of net income	**199**	—	**300**	—
Distributions	**(10,437)**	—	**(10,448)**	—
Balance, end of period	**$17,714**	$—	**$17,714**	$—

Investments relate to Killam's 25% interest in three apartment buildings in Ontario acquired through a joint venture with Kuwait Finance House (KFH).

The joint venture acquired Kanata Lakes, a new 146-unit building in Ottawa, on May 15, 2012. The total purchase price, including soft costs, was $43.5 million, with Killam's 25% interest being $10.9 million. The purchase price was satisfied with cash, and mortgage debt of $24.8 was placed on the property on June 8, 2012. Cash received from the mortgage proceeds were returned to the JV partners subsequent to quarter-end, reducing each partner's equity investment in the property. The return of funds is included in the table above in "distributions".

On May 31, 2012, the joint venture purchased Silver Spear, a 199-unit building in Toronto with 3.6 acres of surplus land, for a total purchase price, including soft costs, of $33.9 million, with Killam's 25% interest being $8.5. The purchase price was satisfied with cash, and as at June 30, 2012 there was no debt on the property. A mortgage is expected to be placed on the property during the second half of the 2012, returning cash to the joint venture partners and reducing Killam's equity investment in the property.

Killam earned $0.2 million from its equity investments during the second quarter and $0.3 million year-to-date, as discussed on page 23 of the MD&A.

Killam received distributions of $10.4 million from the three joint ventures during the quarter, relating primarily to cash returned following mortgage debt placed on Kanata Lakes, as noted above, and debt placed on 180 Mills during the second quarter, the joint venture's first property, acquired in late 2011.

Property & Equipment

As at	**June 30, 2012**		December 31, 2011	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 270**	**$ —**	$ 270	$ —
Building	**1,762**	**14**	1,762	—
Heavy equipment	**621**	**200**	760	214
Vehicles	**1,075**	**229**	1,067	191
Furniture, fixtures and equipment	**2,969**	**1,818**	2,701	1,698
	6,697	**$2,261**	6,560	$2,103
Less: accumulated depreciation	**(2,261)**		(2,103)	
	$4,436		$4,457	

Dollar amounts in thousands (except as noted)

Land and building represent the Company's 50% ownership interest in the land and building which its head office occupies. Under IFRS, owner occupied property is required to be accounted for as property and equipment and not investment property.

Rent and Other Receivables

As at	**June 30, 2012**	December 31, 2011
Rent receivable	**$ 811**	$ 611
Insurance receivable	**162**	191
Other receivables	**8,578**	904
	$9,551	$1,706

As at June 30, 2012, other receivables include $6.3 million in distributable funds receivable from the Company's equity accounted joint venture. This includes $6.2 million of funds receivable following mortgage debt being placed on a recent property acquisition. Also included in other receivables are accruals for laundry revenue, commission revenue associated with phone and cable revenue sharing and other non-rental income. The majority of these receivables are less than 60 days old.

The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debt. The Company's bad debt expense experience over the last number of years has been less than 0.4% of revenues. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

Pursuant to their respective terms, tenant receivables are aged as follows:

As at	**June 30, 2012**	December 31, 2011
0-30 days	**$389**	$295
31-60 days	**14**	105
61-90 days	**166**	11
Over 90 days	**242**	200
Total	**$811**	$611

Inventory

Killam's inventory balance was $0.9 million at June 30, 2012, compared to $1.0 million at December 31, 2011. The inventory balance represents manufactured homes for which sales have not closed at period-end, as well as a small number of stock homes. As at June 30, 2012, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

Other Current Assets

As at	**June 30, 2012**	December 31, 2011
Prepaid property taxes	**$5,487**	$1,155
Prepaid insurance	**1,119**	336
Other prepaids	**1,004**	867
	$7,610	$2,358

Prepaids have increased as a result of the timing of payments for property taxes and insurance.

Dollar amounts in thousands (except as noted)

Mortgages and Debentures Payable

As at	**June 30, 2012**	December 31, 2011	% Change
Mortgages	**$615,011**	$637,362	(3.5)%
Vendor financing	**1,109**	2,421	(54.2)%
	616,120	639,783	(3.7)%
Less: deferred financing	**(9,595)**	(9,568)	0.3%
Total mortgages and vendor financing	**$606,525**	$630,215	(3.8)%
Convertible debentures	**$ 97,600**	$ 97,174	0.4%
Less: deferred financing	**(3,386)**	(3,625)	(6.6)%
Subordinated debentures	**9,957**	9,917	0.4%
Less: deferred financing	**(33)**	(73)	(54.8)%
	$104,138	$103,393	0.7%
Total debt	**$710,663**	$733,608	(3.1)%
Weighted average years to maturity of mortgage and vendor debt	**3.5**	3.8	
Gross mortgage and vendor debt as a percentage of total assets	**46.0%**	48.1%	
Total gross debt as a percentage of total assets	**54.0%**	56.2%	
Interest coverage ratio *(rolling twelve months)*	**1.98x**	1.98x	
Debt service coverage ratio *(rolling twelve months)*	**1.31x**	1.32x	
Weighted average interest rate of mortgage and vendor debt	**4.51%**	4.63%	
Weighted average interest rate of total debt	**4.85%**	4.94%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back (VTB) mortgages as part of an acquisition. As at June 30, 2012, no mortgages or vendor debt had floating interest rates. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee.

Mortgages and vendor financings payable decreased from December 31, 2011 to June 30, 2012 due to the disposition of MHC properties with mortgage debt ($37.8 million), regular principal repayments ($8.6 million) and the repayment of a vendor mortgage ($0.9 million). These reductions were partially offset by debt associated with acquisitions completed in 2012 ($22.0 million) and net proceeds on the refinancing of maturing mortgages ($2.4 million).

Killam's June 30, 2012 weighted average interest rate on mortgages improved to 4.51% compared to 4.63% as at December 31, 2011 as a result of refinancings during the period at lower interest rates as well as the retirement of debt associated with the sale of the twelve MHC properties. The Company's weighted average years to maturity declined slightly to 3.5 years.

Total gross debt as a percentage of total assets decreased to 54.1% from 56.2% at December 31, 2011. Management expects to maintain the ratio of debt to total assets between 55% and 65%. The decrease during the six months ended June 30, 2012 is a result of the debt which was retired during the period related to the sale of the MHC properties. This ratio is also sensitive to changes in the fair value of investment properties, in particular Cap-Rate changes. A 10 basis point increase in weighted average Cap-Rate as at June 30, 2012, would have increased the debt as a percentage of assets by 90 basis points.

Dollar amounts in thousands (except as noted)

2012 Refinancings

During the six months ended June 30, 2012, Killam refinanced the following maturing mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Avg. Term	Net Proceeds
Apartments (1)	$11,767	4.70%	$13,759	2.75%	5.5 years	$1,992
MHCs	2,082	5.24%	2,455	4.47%	5.0 years	373
	$13,849	4.78%	$16,214	3.01%		$2,365

(1) In addition, a $0.9 million VTB mortgage bearing interest at a rate of 5.00% was repaid in full.

The following table sets out the maturity dates and average interest rates of mortgage and vendor debt by the year of maturity:

	Apartments			MHCs		**Total**	
Year of Maturity	Balance June 30, 2012	Weighted Avg Int. Rate %	% CMHC Insured	Balance Jun 30, 2012	Weighted Avg Int. Rate %	**Balance Jun 30, 2012**	**Weighted Avg Int. Rate %**
2012	17,158	4.86	99.1	9,390	6.06	**$26,548**	**5.28**
2013	70,059	4.31	71.0	10,036	6.26	**80,095**	**4.69**
2014	133,815	4.45	51.2	18,145	5.59	**151,960**	**4.59**
2015	89,336	4.51	46.9	17,024	5.53	**106,360**	**4.68**
2016	110,486	4.30	50.1	12,737	5.38	**123,223**	**4.42**
2017	21,534	3.33	87.1	7,166	5.41	**28,700**	**3.85**
2018	7,293	4.87	100.0	-	-	**7,293**	**4.87**
2019	20,859	4.87	100.0	-	-	**20,859**	**4.88**
2020	19,086	4.08	100.0	-	-	**19,086**	**4.08**
2021	24,699	3.79	88.8	-	-	**24,699**	**3.79**
2022	17,871	3.16	36.7			**17,871**	**3.13**
Thereafter	9,426	1.74	100.0	-	-	**9,426**	**5.15**
	$541,622	4.33	62.2	$74,498	5.67	**$616,120**	**4.51**

As at June 30, 2012, approximately 62% of the Company's apartment mortgages were CMHC insured (55% of all mortgages) (December 31, 2011 – 61% and 51%, respectively). The weighted average interest rate on the CMHC insured mortgages was 4.02% as at June 30, 2012 (December 31, 2011– 4.13%).

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for the remainder of 2012 and for 2013, as well as VTB debt maturing during 2012 and 2013.

	Number of Properties	**NOI (last 12 months)**	**Principal Balance (at maturity)**
2012			
Apartments with debt maturing in 2012	5	$2,511	$16,710
MHCs with debt maturing in 2012	8	2,339	14,352
2012 Debt Maturities	13	$4,850	$31,062
2013			
Apartments with debt maturing in 2013	19	$8,646	$67,430
MHCs with debt maturing in 2013	8	1,787	11,018
2013 Debt Maturities	27	$10,433	$78,448

Debentures

The Company's $57.5 million convertible unsecured subordinated debentures mature November 30, 2017, bear interest at 5.65% and are convertible at the holders' option to common shares at a price of $13.40. The Debentures are redeemable at the option of the Company after November 30, 2013 and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $46.0 million convertible unsecured subordinated debentures mature June 30, 2018, bear interest at 5.45% and are convertible at the holders' option to common shares at a price of $14.60. The Debentures are redeemable at the option of the Company after June 30, 2014 and on or before June 30, 2016, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $10.0 million of unsecured subordinated debentures and related warrants consist of three tranches of $2.5 million, $2.5 million, and $5.0 million, bearing interest at 5.92%, 6.06% and 6.33%, respectively. The associated warrants are exercisable at $14.40, $15.20 and $12.24, respectively. The debentures and warrants mature and expire on January 4, 2013.

Credit Facility

The Company has a credit facility with a major financial institution, which consists of a $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 basis points on prime rate advances or 225 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at June 30, 2012, the Company had assets with a fair value of $1.6 million pledged to the line and had a balance outstanding of $Nil.

Shareholders' Equity

During the three and six months ended June 30, 2012, 187,459 and 368,417 stock options were exercised for cash proceeds of $1.7 million and $3.3 million, respectively.

Killam pays a dividend of $0.04833 per share per month ($0.58 per share annualized). The monthly dividend was increased from $0.04668 per share effective for the June 2011 dividend.

The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten-day volume weighted average price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the three and six months ended June 30, 2012, the Company issued 105,370 and 166,482 common shares under the DRIP with a value of $1.3 million and $2.1 million, respectively (2011 – 49,583 common shares with a value of $0.5 million and 95,256 common shares with a value of $$0.9 million). For the three and six months ended June 30, 2012 the average DRIP participation rate was approximately 20% and 16%, respectively.

Risk Management
Killam faces a variety of risks, the majority of which are common to real estate entities. These are described in detail in the Management's Discussion and Analysis found in Killam's 2011 Annual Report. These factors still exist at the end of this interim period and remain relatively unchanged.

Significant Accounting Judgments, Estimates and Assumptions
The Company's accounting policies are described in Note 2 of the consolidated financial statements found in Killam's 2011 Annual Report. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. The significant areas of judgments, estimates and assumptions are set out in Note 3 of the consolidated financial statements found in Killam's 2011 Annual Report. The most significant estimates relate to the fair value of investment properties and deferred taxes. During the most recent interim period, there have been no changes in the Company's policies or procedures and other processes that have materially affected, or are reasonable likely to materially affect, the Company's accounting judgments, estimate and assumptions.

Future Accounting Policy Changes
Future account policy changes that may affect the Company are described in Note 5 of Killam's December 31, 2011 consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls
The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Corporation's Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Corporation have been detected. During the most recent interim period, there have been no changes in the Company's policies or procedures and other processes that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

Subsequent Events
On July 17, 2012, the Company announced a dividend of $0.04833 per share, payable on August 15, 2012 to shareholders of record on July 31, 2012.

On July 16, 2012, the Company acquired a 4.94 acre development site on Topsail Road in St. John's, Newfoundland for $3.2 million in cash. The site is zoned for two six story buildings containing 176 units and two four story buildings at the rear of the site containing 108 units.

Subsequent to June 30, 2012 - 290,900 warrants at a strike price of $12.24 were exercised for proceeds of $3.6 million.